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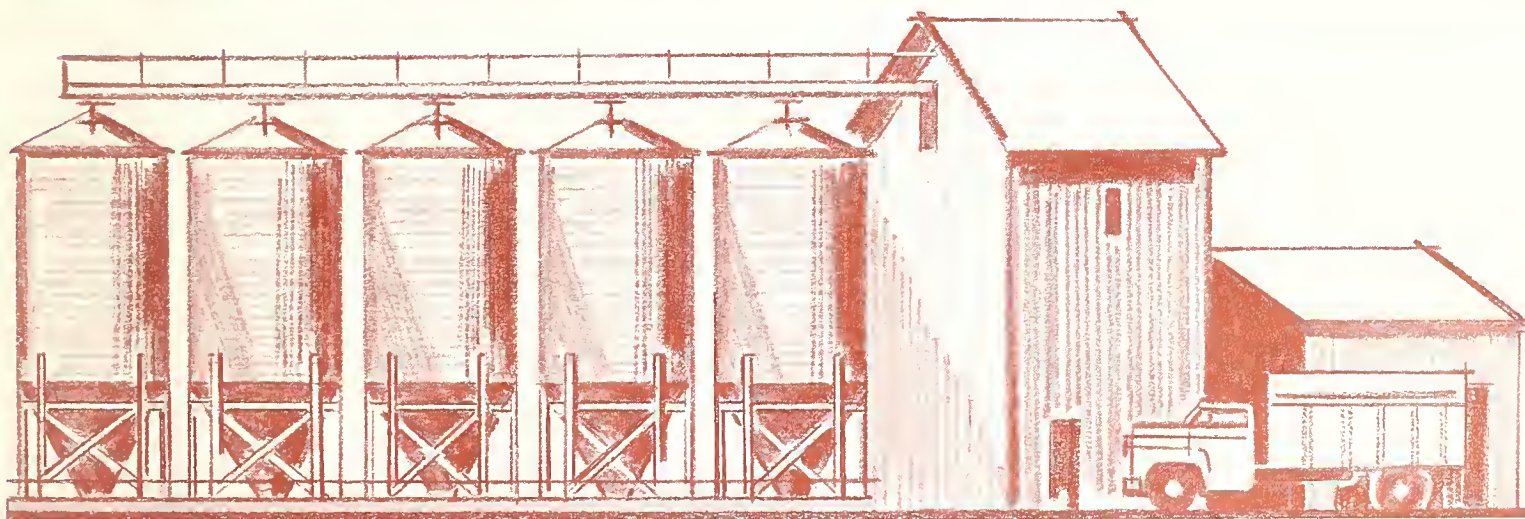
Operations of Local Feed and Supply Bargaining Cooperatives in Illinois, 1959-64

General Report 136

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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D.C.

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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This study was conducted under authority of the Agricultural Marketing Act of 1946 (RMA, Title II). It was made by the University of Illinois and financed in part by Farmer Cooperative Service, U.S. Department of Agriculture, under Contract No. 12-04-100-28.

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HIGHLIGHTS

In 1963-64, members of 12 local cooperative nonstock bargaining associations in Illinois reported that their main reasons for participating in these groups were to save money on supplies and to obtain products not readily available in their communities. Other advantages mentioned for belonging to these "buying groups," as they are more popularly known, were savings in time, convenience, greater knowledge about products, and the opportunity to exchange ideas on production practices with other farmers having similar operations.

Of the 37 members interviewed, 40 percent stated that participation in the buying groups had been in part responsible for an increase in the size of their livestock enterprises and in carrying on more efficient farm operations. Seventy-five percent reported that they use some of their farm equipment and buildings more completely now than before joining a group.

Participation in a buying group required that 90 percent of the members interviewed carry a larger inventory. The median inventory of feed was reported to be three times as high as before joining the group.

Less than 10 percent of the members reported that they had to use more credit to comply with the groups' policy of requiring cash payment for farm supplies. Many of them may have shifted their current assets from cash to inventory, delayed payments on other obligations, or generated more cash from improved incomes.

Purchases of soybean meal made up a bigger share of total business in more associations than any other item; however, feed additives and animal health products were handled by a greater number of associations. Members used

their buying groups for a higher proportion of their needs of feed additives, minerals, soybean meal, and feed storage equipment than for any other items. Purchases of ingredients accounted for nearly three-fourths of total feed purchases, excluding grain and hay.

In 10 of the 12 associations, two-thirds of the members resided within 10 miles of their supply distribution points. The median total miles traveled per member to obtain supplies purchased through the buying group was 260 miles per year.

Retailers of farm supplies operating in the same areas where buying groups were located have continued to provide some products and services to members of the groups. Nearly half of these retailers stated that their business had been affected by the groups' operations.

Two-thirds of the members interviewed stated that after the buying group began operating, their previous farm supply dealers made changes in their business practices, including reduced prices for quantity purchases and offering additional products and services.

The volume of business conducted by the individual associations was smaller than that of the average complete service farm supply dealer. Almost all the members thought that the buying groups would not completely replace other farm supply dealers.

The first of the 12 nonstock bargaining associations in Illinois was organized in 1959. The last two were formed in 1964. Membership in all associations has been limited and held low by intent, with the number ranging from 11 to 43. Financial responsibility and

willingness to cooperate were the two major criteria common among all the associations in admitting members.

Members of each group had nearly always been associated in some other activity before organizing their buying group. The median age of members was 38--about 10 years younger than the average commercial farmer in Illinois.

Farm operations of members of the buying groups were more than twice as large in terms of farm acreage, hogs raised, and cattle fed as other farmers in their counties and in the State. Fewer of the members kept dairy cows or laying flocks than did other farmers in the area. Members who did have a dairy herd or a laying flock, however, had a much larger herd or flock than did other farmers in the area or the State.

Capital for the associations was provided from an initial membership fee, and from assessments made on each purchase order. Cash payment was required upon receipt of the order.

One of the members has served as the purchasing agent for each association and has received a percentage commission for his services. Members of the groups desire that no full-time jobs be created.

Members believed that an effective buying group involves careful selection of members and purchasing agent, ability to agree on various products and sources of supplies, proper organization and incorporation, and adoption of sound business policies and operating practices.

OPERATIONS OF LOCAL FEED AND SUPPLY BARGAINING COOPERATIVES IN ILLINOIS, 1959-64

By R. J. Mutti and L. J. McGinnis¹

A recent development among a number of Illinois farmers in procuring production supplies has been the organization and operation of cooperative nonstock purchasing associations.

These associations are popularly known as "buying groups" or "bargaining associations" because they do not warehouse a stock of supplies nor have full-time employees. These two terms are used interchangeably in this

report in the interest of brevity.² In 1965, at least 15 local associations and one federation of locals were operating in Illinois. The development of these groups is an example of an effort to bring about changes in the flow of production supplies and the way in which supply marketing functions are performed.

The increase in the number of these groups and in products handled during the past 5 years has attracted the attention of other farmers, suppliers, and retail distributors of farm supplies. Answers to some questions commonly asked about them are presented in this report.

Objectives and Methods of the Study

The more specific purposes of this study were to discover or determine:

1. The extent to which purchasing of farm supplies by cooperative nonstock associations has developed in Illinois; when, where, and how it occurred; and the form of organization adopted.

2. Reasons for development of such associations.

3. Operating methods and policies, types of products purchased, and their relative importance.

4. Costs and benefits associated with their operation.

5. Distinguishing characteristics between the farmers participating in these groups and all farmers in their area.

6. The impact this type of organization has had on manufacturers and other distributors of farm supplies.

¹ Professor of Agricultural Marketing and former Assistant in Marketing, respectively, Department of Agricultural Economics, University of Illinois. This study was financed in part by a contract with Farmer Cooperative Service, U.S. Department of Agriculture. J. Warren Mather, Chief, Farm Supplies Branch, Farmer Cooperative Service, assisted in planning the study, developing questionnaires, and reviewing the manuscript for this report. The authors' indebtedness to all individuals providing information is gratefully acknowledged. Without their cooperation, this report could not have been prepared.

² The authors recognize, however, that pooled purchasing is often carried on by farmers and other buyers without using a formally incorporated organization, and that cooperative purchasing associations with capital stock are widely used in a joint effort to procure farm supplies. A brief review of earlier efforts in pooled purchasing of farm supplies in Illinois and other States shows that the idea itself is by no means a new concept (see Appendix).

7. Problems, limitations, and possibilities of this type of organization.

Information was secured in personal interviews with: (1) A random sample of approximately one-fifth of the individual members of 12 associations; (2) the purchasing agent of each association; (3) a few suppliers for these associations; (4) a few competitors; and (5) other interested observers.

Additional information was received from: (1) Forty members who replied to a mailed

questionnaire as to the relative importance of purchases of specific items through their association, savings realized, and effects on their purchasing practices; and (2) informal communication with several members contacted at various times.

Answers were tabulated, and some arrays, frequency distributions, medians, and percentages were determined.

History of Development

In 1965, articles of incorporation filed with the Division of Markets, Illinois Department of Agriculture, Springfield, show the following

nonstock purchasing associations and their date of incorporation:

<u>Name</u>	<u>Address</u>	<u>Date</u>
1. L G Feed Cooperative	Petersburg, Ill.	Mar. 5, 1959
2. Little Bear Cooperative, Inc.	Greenfield, Ill.	Mar. 3, 1960
3. Hog, Inc.	Carlinville, Ill.	Mar. 20, 1960
4. SCP Cooperative	Belleville, Ill.	Oct. 10, 1960
5. C-M Cooperative, Inc.	Shattuc, Ill.	Dec. 19, 1961
6. Cash Cooperative, Inc.	Nashville, Ill.	Jan. 17, 1962
7. Okaw Valley Cooperative	Prairie du Rocher, Ill.	Feb. 1, 1962
8. Stockland, Inc.	Carlinville, Ill.	Mar. 21, 1962
9. Chrismon Feeders, Inc.	Morrisonville, Ill.	Apr. 27, 1962
10. Mid-West Cooperative, Inc.	Greenview, Ill.	June 11, 1962
11. Iuka Cooperative	Iuka, Ill.	Jan. 16, 1963
12. C & W Cooperative, Inc.	Columbia, Ill.	July 15, 1963
13. Agriculture Producers Cooperative, Inc.	Anna, Ill.	Sept. 9, 1963
14. Shawnee Cooperative, Inc.	Ridgeway, Ill.	Oct. 24, 1963
15. B & MP Cooperative, Inc.	Princeton, Ill.	Feb. 28, 1964
16. FILM Cooperative, Inc.	Gibson City, Ill.	Mar. 11, 1964

The number of associations organized by years through 1965 was as follows:

1959 - 1	1961 - 1	1963 - 4
1960 - 3	1962 - 5	1964 - 2

Two technological developments have provided an impetus to the organization of these groups: (1) The development by nutritionists of livestock rations using soybean meal as the

only purchased source of protein, and identification of the feed additives necessary to make a fortified soybean meal supplement which gives satisfactory feeding performance, and (2) the development by engineers of relatively inexpensive equipment for grinding (or cracking) and mixing feed on the farm that is more convenient and timesaving than equipment formerly available.

The existence of this knowledge and equipment led those who eventually organized the buying groups to think about how to lower feed costs. If soybean meal and feed additives were purchased in small quantities at retail prices, then prevailing feed costs could not be lowered. But, if truck or railcar loads were purchased, appreciable savings over small-lot purchases could be made.

The men forming the first group had a common interest. They had been active together in an association for swine herd improvement and were aware, from their farm records, of the influence of feed costs on farm earnings. Before the buying groups was organized, each of these men secured a vitamin mixture for his swine from a veterinarian. By incorporating, the men acquired access to additional sources of supplies that were not available to them on an individual basis, and, by having more members in their group, they could buy in larger quantities. Thus they were able to obtain quantity discounts or better bids on their orders. They found it possible to develop more bargaining power than each could exert operating as an individual.

The geographical pattern of development of later buying groups presents an interesting example of how ideas are transmitted (fig. 1). An article in *Capper's Farmer* in September 1959 told about the organization, operation, and benefits of the L G Feed Cooperative, Petersburg, Ill. (in Menard County near the center of the State).³ A second and a third group were formally incorporated 12 months later after getting ideas about how to organize from members of L G Feed Cooperative. Both of these later groups were located about 50 miles south of L G Feed Cooperative in adjacent counties.

A fourth group, organized 7 months after the second and third groups, received information from the third group. It, too, leapfrogged a county to the south to seek information from the nearest group.

³ Montgomery, George A. They Slashed Feed Costs \$4 a Hog. *Capper's Farmer* 70(9): 24-27. Sept. 1959.

Over a year then elapsed before additional groups became formally organized. But, between December 1961 and the first half of 1962, six more associations (including one regional wholesale organization) were incorporated. One of these associations and the regional were in the same county as an existing group; the other four were in adjoining counties. Each of these groups secured advice on organizing from the nearest existing group. All the groups were familiar with the article in *Capper's Farmer* and had also contacted the L G. Feed Cooperative.

The regional wholesale cooperative developed out of the opportunity to pool orders for several of the now existing locals and thereby qualify for quantity discounts or receive lower price quotations. The regional thus served as a wholesale distributor or broker rather than as a retailer.

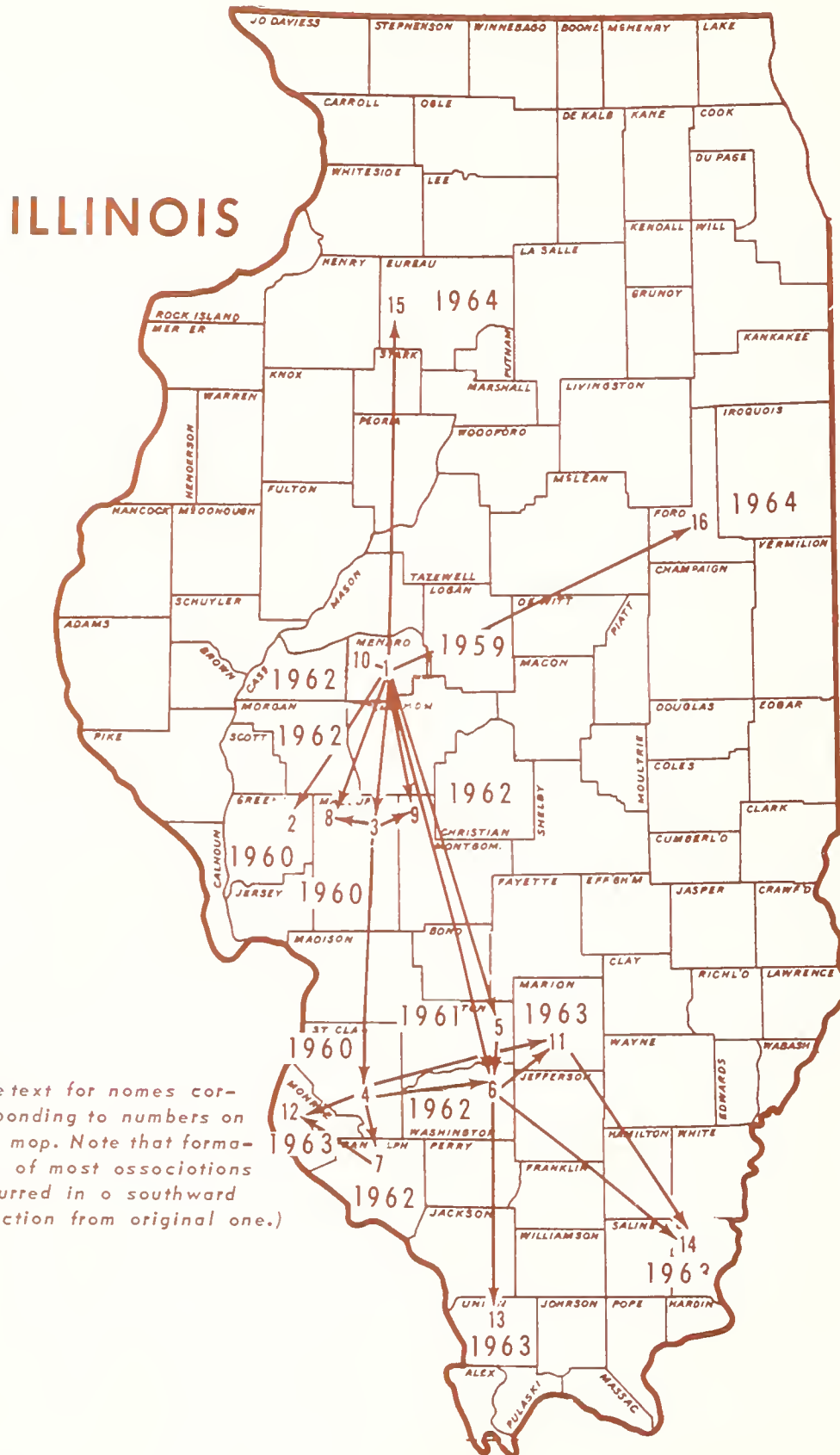
Two of the four groups organized in 1963 were located in counties adjacent to counties already having buying groups, and the other two had as charter members farmers who had been served by existing groups.

In 1964, for the first time, two groups were formed in Illinois in areas north of the pioneer group in Menard County.⁴ One was located in a heavy livestock production area in northwestern Illinois; the other, composed of farmers with livestock in a predominantly cash grain area, was located in east central Illinois (fig. 1).

One important point relating to the organization of these groups was that almost all the members had been associated before, in one or more of the following ways: A swine herd improvement association, an adult night school, a farm account record association, a county farm bureau, an agricultural cooperative, a vocational agriculture class, a corporation to purchase city water, and kinship ties. The desire for a stable and close-knit membership has led to careful selection of members and a policy of limited membership.

⁴ One group in Indiana with 3 Illinois members was formed during 1959-64.

FIG. 1- DATES OF ORGANIZATION OF THE ASSOCIATIONS



(See text for names corresponding to numbers on this map. Note that formation of most associations occurred in a southward direction from original one.)

One important factor supporting the development of several groups in southwestern Illinois was the nearness of this area to wholesale distributors and manufacturers of farm supplies in the St. Louis metropolitan area. This

gave the members an opportunity for truck backhauls, that is, the members could bring back supplies on return trips when they hauled livestock and grain to markets in the area.

Characteristics of the Associations

This section describes the structure, membership aspects, and operating methods of the purchasing associations included in the study.

Corporate and Capital Structure

Each of the associations is a nonstock corporation organized under the Agricultural Cooperative Act, State of Illinois, 1923. Capital to cover costs of incorporation and miscellaneous expenses is provided by an initial membership fee. The most common fee has been \$200 (table 1). Some associations charge new members a slightly higher membership fee than that paid by the charter members. This increase in fee is to compensate for legal and other nonrecurring expenses of incorporation that were paid out of the charter members' fees.

Table 1.--Membership fee arrayed from low to high and total member capital of 12 associations studied

Membership fee	Member capital
\$25	\$325
25	425
100	1,400
100	1,400
150	2,100
200	2,250
200	2,500
200	3,600
200	4,000
225	4,725
250	5,040
300	10,535

The money from membership fees provides a reserve so that the associations can pay all bills promptly to earn cash discounts offered by suppliers. Capital requirements are not

high because of the method by which the groups have chosen to operate. Members pay cash when an order is placed or immediately upon receipt of a statement identifying items purchased; no inventories are carried for most items. Thus, as long as the members make their payments, this reserve is maintained. The policy of cash trading is in contrast with that of many farmer purchasing cooperatives and other retail farm suppliers.

Membership Selection

Membership in bargaining or purchasing associations is restricted. While this policy is opposite to the principle of open membership followed by many supply cooperatives, it is by no means unique among farmer cooperatives in the United States.

The number of members in most of the associations has been held low purposely; a few have formed with the minimum number (11) required by the 1923 Agricultural Cooperative Act. The highest number reported in the study was 43, with the median being 18. The total number of members reported in the 12 associations at the time of the interviews was 184--an increase of 44, or 31 percent above the total number of charter members.

The principle of small membership was adopted because of the desire to keep each group manageable, to assure attendance at the regular meetings (at which time orders are pooled), and to secure members known to be financially responsible and willing to accept the policy of cash payment for supplies ordered.

Nearly all of the groups have a procedure for approval of an applicant. This procedure varies from group to group, but it requires approval by vote of the membership, usually a fixed percentage. Some associations defer all applications until the next regular meeting (usually 3 months later) before voting upon it. Some associations require sponsorship by an existing member, while others require approval by the board of directors before an application is accepted. None of the groups had contracts binding members to buy all of their needed supplies through their association.

Most of the groups first look at the prospect's financial position. Potential members are expected to be interested in the commodities now being purchased. A few groups have an expected volume of purchase requirements; usually these groups are the larger or older ones which already have a reasonably high volume of operations. The purchase requirements have been more flexible in the newer and smaller groups. Usually, interest alone is sufficient to admit farmers to membership, but the farmers are also expected to be financially responsible.

Meetings

The bylaws of eight associations provide for a meeting every 3 months, and those of four others provide for a meeting each month. Almost all the associations provide for special meetings on call, if needed.

The major purpose of the meeting is to determine requirements and secure orders from each member so that bids may be obtained and orders placed for the combined amount of each supply item desired.

The practice of meeting just every 3 months minimizes travel to and from meetings. Also, it permits pooling orders of sufficient volume to attract a favorable price quotation from suppliers.

Educational and social aspects of meetings are considered valuable in many of the associations. Several members have stated that the meetings have provided an opportunity to exchange ideas on farm production problems and practices. One association holds a potluck dinner meeting for members and their families once a year.

Location of Members

In most of the associations, membership has been drawn from an area near the farm of the purchasing agent or the designated distribution point for supplies. Two-thirds of the members of four associations were within 5 miles of the distribution points. Two-thirds of the members in six additional associations were within 10 miles of their respective points of distribution (table 2).

Table 2.--Number of associations in which two-thirds of their members were located within specified distances from distribution points.

Number of associations	Distance in miles
4	5
1	6
1	8
4	10
1	15
1	35

The greatest distance of a member from the distribution point ranged from only 8 miles in one association to 120 in another. In six groups, the greatest distance was no more than 15 miles. In another six, the most distant member was 25 or more miles from the distribution point or purchasing agent. Thus several members had been willing to travel beyond their own neighborhood or local community to participate in a buying group.

Annual Volume of Business

During 1963, reported and estimated annual volumes of business conducted by the 12 associations varied as follows:

\$3,500	\$40,000	\$111,000
9,000	60,000	126,000
19,000	73,000	133,000
30,000	97,000	136,000

Differences in the volume of business attained by the associations were due to the age of the association, the number of members, variations in the size of farming operation among the individual members within each group, the number and types of commodities purchased for the members, and the extent to which the association was used for given products (a reflection in part of the competitive situation in the area). In some groups, major items such as soybean meal had been obtained independently by members, or by a few members together, and were not included in the group's total volume.

Duties of a Purchasing Agent

One of the members in each association serves as a purchasing agent. Often, he is one of the largest users of the supplies that the group purchases. The purchasing agent has a number of specific duties, such as:

1. Solicit sources of supplies for products desired by members.
2. Gather information on prices and other factors which determine selection of a source of supply.
3. Report information on prices and product availability to members.
4. Receive members' orders.
5. Combine members' orders into a single order for each product.
6. Place orders with suppliers for items needed.

7. Pay each supplier.⁵
8. Notify members when and where their orders may be picked up.
9. Supervise the distribution of products to individual members.
10. Bill each member for purchases made.⁵
11. Keep records and accounts covering all transactions.
12. Maintain a file of all correspondence and communications.
13. Manage the association's bank account.⁵
14. Compute, pay, and file State tax reports.⁵
15. Prepare and file annual report and pay annual license fee to State Division of Markets (for firms incorporated under the 1923 Agricultural Cooperative Act).⁵
16. File and pay Federal income tax if a taxable net income is made.



Gerald Tetzlaff, purchasing agent for Hog, Inc., Carlinville, Ill., places an order for supplies.

⁵ These duties may be performed by the treasurer if the group has one.

Method of Handling Expenses

Four associations used specific percentage assessments to cover separately their commissions to the purchasing agent and other operating expenses (excluding freight charges and sales tax) (table 3). In seven other asso-

Table 3.--Assessments used in providing funds to pay for services rendered

Association code	To pay commissions to purchasing agents	To cover other operating expenses
A	2	1
B	¹ 1 & 2	1
C	¹ 1 & 2	1
D	1	1/2
E	2	(2)
F	2	(2)
G	³ 2	(2)
H	¹ 1 & 2	(2)
I	¹ 1 & 2	(2)
J	¹ 1/2 & 1 & 2	(2)
K	1 1/4	(3)
L	None	(4)

¹ Variable rates for different supplies.

² Paid by purchasing agent.

³ 1 percent goes to purchasing agent and 1 percent goes to treasurer.

⁴ Assessment needed is made at end of year.

ciations, the purchasing agents paid from their commissions all operating expenses (except freight charges and sales taxes).

In 10 associations, any cash discounts received went to the purchasing agent as additional compensation. In the other two associations, any discounts received were deducted in determining net prices to members.

In associations where a variable commission was paid to the purchasing agent, the lower rate tended to be for a major item (usually soybean meal), and the higher rate for all other items.

In one small association, the purchasing agent was not compensated for his services, and no deductions for operating expenses were made at the time of purchase. All expenses were paid out of the common fund derived from membership fees; at the end of the fiscal year, expenses were totaled and an assessment was prorated to all members.

Products Purchased

Soybean meal purchases made up a larger share of the total business than any other item in most of the associations, but one-third of the associations handled no soybean meal. Four major classes of products, however, accounted for more than half the business in six associations (table 4).

Table 4.--Associations reporting approximate share of business by major classes of products purchased

Major class of products	Share of business for each item			
	Over 1/2	1/4 to 1/2	Under 1/4	Zero
	Number of associations			
Soybean meal	3	5	0	4
Feed additives and animal health products	1	3	8	0
Commercial feeds	0	0	4	8
Agricultural chemicals	1	1	8	2
Steel products	1	0	9	2
Fertilizer	0	1	8	3
Petroleum products	0	0	8	4
Grain	0	1	1	10

All associations procured feed additives and animal health products for their members, and in three associations these products were more important than any other item handled.

Many associations handled items other than those listed in table 4. For example, one association purchased lumber, another purchased seed for its members, and several handled

miscellaneous items such as plastic pipe and electric motors.

Furthermore, these associations deal in some products which are only used seasonally. Thus, it is possible to determine the quantities needed ahead of time and pool an order to get the price advantage associated with a quantity purchase.



The only inventory of this association is a small stock of supplies in the purchasing agent's basement.

Sources of Supplies

The purchasing agents, on their own initiative, develop sources of supplies for their buying groups. Individual members and purchasing agents of other groups sometimes assist in finding sources of supplies. The individual groups do not obtain all their farm supplies through the same supplier, nor do all associations use the same source of supply for a given item. Suppliers have accepted the buying groups, which are incorporated businesses, as legitimate dealers.

In their earliest stages of development, some buying groups found wholesalers or manufacturers unwilling to deal with them. But this attitude usually disappeared as the business of the groups expanded, and their stability was demonstrated. Indeed, the excellent record of these groups for prompt payment has made them sought-after customers. Salesmen for an increasing variety of products now solicit business from the purchasing agents.

Wholesalers reported that in the early development of a few groups they had a problem with some members who wanted to buy supplies at dealer prices and pay for them outright, without the sale being billed to the association. Wholesalers said that they preferred to deal with only one individual--the authorized purchasing agent--and to send him an invoice of all items picked up by individual members. These wholesalers keep on file a list of bona fide members (provided by the purchasing agent) who are authorized to pick up supplies for themselves or other members.

Suppliers are invited to submit bids to provide designated quantities of a specific item. Convenience, the source that involves the least transportation cost, prices quoted for the quality desired, and preferences of members for a particular brand of product all help to determine where an item is purchased. In addition, the opportunity to secure backhauls of supplies by truckers and individual members that haul farm commodities to markets (including processors and terminal elevators)

has been an extremely important factor in selecting suppliers.

Purchasing agents discovered that many suppliers quote prices which decrease as the quantity to be purchased increases. To attain the quantity levels which qualified for lower prices, some of the individual buying groups found it advantageous to pool their orders, with the item in question shipped to a mutually agreed upon point (usually a designated purchasing agent, or to an intermediate point).

Purchasing agents also found that some manufacturers do not sell directly to dealers (or to farmers). They find it more advantageous to sell to wholesalers, who not only buy larger quantities than dealers, but also disseminate product information and assist the manufacturers in business problems.

MID-WEST COOPERATIVES, INC. (GREENVIEW, ILL.)--A WHOLESALE DISTRIBUTOR

As mentioned, two or more buying groups informally began to pool orders on the initiative of one of the purchasing agents who received shipment of the product and became responsible for distributing the supplies to the other groups. It became apparent that this agent, in effect, was serving as a wholesale distributor. But, since the agent's main activity was still that of a dealer-agent for his group of users of the product, his association could not qualify as a distributor, and thus for the prices quoted to distributors.

On June 11, 1962, the Mid-West Cooperative, Inc., therefore, was organized and incorporated in Greenview, Ill., as an outgrowth of informal cooperation among buying groups. Its principal function was to serve as a wholesale distributor for individual buying groups. In July 1964, this cooperative had two member buying groups in Missouri, one in Indiana, and 11 in Illinois.

It has served as a distributor for animal health products, feed additives, certain types

of steel products and equipment, and some miscellaneous items. Orders from buying groups have often been large enough that drop shipments (direct from manufacturer to a specific point designated by the distributor) have been made. Some of the buying groups each receive direct shipments; others continue the arrangement of receiving an order for two or three other groups. Such arrangements

have helped to minimize the inventory requirements of Mid-West and to reduce procurement costs for the individual associations.

The purchasing agent for Mid-West performs the function of a broker for local purchasing agents in locating sources of supplies, negotiating the purchase, and arranging for shipment and payment of the desired items.

Characteristics of Members of the Associations

What type of farmers make up buying groups? This section of the report presents information on several characteristics of their members.

Size and Type of Farm Operations

A random sample of 37 farmers participating in buying groups indicated that the average participant operated about twice as much farmland as the average farmer in Illinois, as well as in the counties in which the members lived. In 1963, the median-sized farm operated by members of buying groups was 400 acres, compared with 203 acres for the State and 171 acres for the 14-county area surveyed (table 5).

The major livestock enterprises of the sample of 37 farmers participating in the buying groups were as follows: Eleven (or 30 percent) of this group produced only hogs, and 16 (or 43 percent) produced hogs and beef. Dairying was the major livestock enterprise on three farms (or 8 percent), and the production of hogs, beef, and lambs was the important enterprise on two, or 5 percent. One farm produced only beef. The remaining four farms had two or more livestock enterprises each and could be classed as general livestock farms. They were classed as dairy-hog; hog-broiler; hog-laying flock; and hog-dairy-beef.

Table 5.--Comparison of acreage operated by farmers in buying groups with acreage operated by all farmers in area and all farmers in Illinois

Acreage farmed	Buying groups ¹	14-county area ²	Illinois ³
	<u>Percent of farms</u>		
Less than 260 acres	27.0	70.4	73.4
260 - 499 acres	40.5	22.9	21.4
500 acres and over	32.5	6.7	5.2
Total	100.0	100.0	100.0
	<u>Acres</u>		
Average size	400	171	203

¹ Random sample of 37 members of buying groups.

² Total farms in 14 counties in which buying groups operated.

³ Computed from Illinois Agricultural Statistics, Bulletin 64-2, 1963.



Although most members of the buying groups produced hogs, many also had beef or dairy herds.

Table 6.--Comparison of size of livestock enterprises of farmers in buying groups with size of livestock enterprises of all farmers in area and all farmers in Illinois, 1963

Livestock enterprise	Proportion of farms reporting each enterprise			Average size of enterprise		
	In buying groups ¹	In area ²	In Illinois ³	In buying groups ⁴	In area	In Illinois
		<u>Percent</u>			<u>Number of head</u>	
Hog production	89	5 37	5 34	600	5 203	5 253
Beef production	52	6 22	6 22	100	6 30	6 41
Dairy herds	14	7 23	7 22	54	7 10.2	7 12.6
Laying flocks	3	7 31	7 24	1,800	7 192	7 147

¹ Random sample of 37 members of buying groups.

² Total farms in 14 counties in which buying groups operated.

³ Computed from Illinois Agricultural Statistics--Bulletin 64-2, 1963.

⁴ Medians among the farms with specified enterprises.

⁵ Based on 1963 Illinois Assessors' Census.

⁶ Determined from grain-fed cattle marketed in 1962.

⁷ Dairy cows and laying hens on farms, Jan. 1, 1963.

The size of the swine enterprise of farmers in the buying groups was more than twice that on all farms in Illinois with swine, and nearly three times that of farms in the area with swine (table 6).

Approximately one-fifth of the farmers participating in buying groups raised less than 300 hogs annually; another one-fifth, between 300 and 599; one-fourth, between 600 and 899; and the remaining growers, 900 or more hogs. The range was from 50 to 3,000.

Members of the buying groups produced an average of 2½ to 3 times as many head of beef, they had 4 to 5 times as many dairy cows, and 9 to 12 times as many laying hens as the average farmer in their area and in the State.

A much larger percentage of farmers in the buying groups had hog and beef enterprises than the average farmer in the area and in Illinois; dairy and poultry enterprises were not as prevalent among such farmers (table 6). One-third of the farmers participating in buying groups fed less than 50 head of cattle each year; another one-third fed 50 to 149

head; and the remaining one-third fed 150 head or more. The range was from 7 to 600.

In at least one association there were some members with other vocations that were closely related to the farming interests of the group. For example, one member was a professional farm manager; one was a veterinarian; one was a tax accountant; and one was a former vocational agriculture teacher of a majority of the present members of the association.

Percentage of Soybean Meal Purchased in Bulk Versus Bags

Approximately one-half of the members interviewed stated that they purchased substantially all of their soybean meal in bags; the remaining members stated that most of their soybean meal purchases was in bulk form. Eleven percent of the latter group purchased all their soybean meal in bulk.

Over one-fifth of the members purchasing soybean meal in bulk had all of it delivered

to their farms. However, less than one-seventh of those purchasing it in bags had all of it delivered to their farms.

Approximately 80 percent of those interviewed used their own trucks to transport their feed purchases.

Tenure Status of Members

The largest proportion of the farmers belonging to buying groups were part owners of the acreages they operated. Fifty-seven percent of the members were part owners while only 25 percent of all farm operators in the State owned part of the land they farmed (table 7).

Table 7.--Comparison of tenure status of buying group members with all farm operators in area and all farmers in Illinois

Tenure status	In sample	In area	In Illinois
	Percent of farmers		
Full owner	27	41	41
Part owner	57	28	25
All tenant	16	31	34
Total	100	100	100
Owning some land	84	69	66
Renting some land	73	59	59

The tenant operators in the buying groups farmed on a more extensive scale than did either owners or part owners. Of the 6 tenants renting all their acreage, 4 operated farms of more than 500 acres. Only 2 of the 10 full owners and only 6 of 21 part owners operated farms larger than 500 acres.

Age of Members and Length of Time in Associations

The median age of the 37 farmers interviewed was 38 years--or approximately 10 years younger than the State average for all commercial farmers.

Among the sample of 37 members, about one-fourth had been members of the buying groups less than 2 years, and about one-third had been members for 4 years or more.

Membership in Other Cooperatives

Nearly 90 percent of the buying group members interviewed stated they were members of other cooperatives, and over 33 percent were members of mutual fire insurance companies. Three-fourths of them, however, reported that experience gained from those organizations was not a factor leading them to form the buying groups. A few members stated that disappointment in other cooperatives was a reason why they formed a buying group.

About one-third of those in the sample interviewed had been obtaining feed from a cooperative before joining the group, another third had been purchasing feed from a private dealer, and the remaining third had been buying from both cooperatives and private dealers. Many of them have continued to buy at least part of their farm supplies from these sources since joining the buying groups.

Variation in Use Made of Associations

Members made greatest use of their buying groups to purchase vitamins and antibiotics, followed next by veterinary supplies, minerals, soybean meal, and feed storage equipment (table 8). From one-third to two-thirds of the members reported buying more than 90 percent of their requirements for such items from the groups.

The fact that many members of the groups were mixing their own livestock rations on their farms explains why such a high share of these five items was purchased through their buying group. Another important reason is that handling margins for many of the items in the first group are greater than for those in the second group.

Table 8.--Distribution of buying group members by proportions of specific items purchased through their groups ¹

Products	Approximate percentages of supplies that members purchased through their buying groups				
	0-9	10-39	40-59	60-90	91-100
	<u>Percentage of members replying for each class</u>				
Vitamins and antibiotics	22.5	2.5	0	7.5	67.5
Veterinary supplies	32.5	10.0	2.5	12.5	42.5
Minerals	47.5	7.5	0	5.0	40.0
Soybean meal ²	50.0	2.5	5.0	7.5	35.0
Feed storage equipment	52.5	5.0	10.0	0	32.5
Agricultural chemicals	70.0	0	0	5.0	25.0
Livestock equipment	45.0	7.5	22.5	7.5	17.5
Fertilizer	50.0	5.0	20.0	7.5	17.5
Motor oil and grease	72.5	0	2.5	7.5	17.5
Tractor fuel	77.5	0	7.5	0	15.0
Commercially prepared feeds	82.5	0	2.5	0	15.0
Feed processing equipment	82.5	2.5	10.0	0	5.0

¹ Determined from mail questionnaire (voluntary replies, not a random sample) from which 40 replies were received. This sample differed from the random sample in that the median average size of the hog enterprise was slightly larger, but the acreage farmed, cattle fed, and cows milked were lower.

² Does not include some purchases that a few members made jointly with other members.

An examination of a manufacturer's printed price list for a popular feed additive disclosed a suggested retail price that was 143 percent of the dealer's price and 174 percent of the distributor's price. Among animal health products, suggested retail prices that are 50 percent greater than those to the dealer are not uncommon. In addition, orders exceeding a certain dollar minimum are usually sent prepaid, thus effecting a saving in freight charges.

The major reason that many of the groups were formed initially was to secure the first four items listed in table 8, as there was no acceptable alternative source for these items. The idea of purchasing additional items developed from their successful experience with those products purchased initially. In marketing terminology, it was an example of integrating horizontally within the group.

Feed-Grain Supplements Purchased

All but one of the farmers interviewed purchased some feed-grain supplements (mostly soybean meal) through the buying groups. Nearly half bought feed-grain supplements only, and the other half purchased both feed-grain supplements and commercially prepared supplements.

Nearly 75 percent of the total tonnage of supplement purchases made by the members interviewed consisted of soybean meal. Commercially prepared supplements accounted for about 25 percent and complete formula feeds for only about 1 percent of the total tonnage.

Those interviewed purchased more than three-fifths of their soybean meal but only two-fifths of their commercially prepared supplements through their buying groups.



All but one of the members interviewed purchased feed-grain supplements, mostly soybean meal, through their buying groups.

Nearly one-third of those interviewed made all their feed-grain supplement purchases through their buying groups, and an additional one-fourth purchased over half their total

through the associations. In contrast, one-fourth of them purchased less than one-sixth of such feedstuffs through their buying groups.

A classification of the volumes of feed-grain supplements purchased by members in 1964 showed the following:

<u>Percent of farms</u>	<u>Tons purchased annually through buying associations</u>
14	Less than 20
42	20 - 39
25	40 - 79
19	80 and over
Average	35 1/2
Low	4
High	254

There was no apparent relationship between the tons of feed ingredients purchased and the percentage that was purchased through the associations. Both large and small users were found among those purchasing 100 percent of their feed ingredients through the association, and both small and large users purchased less than 20 percent of their feed tonnage through the associations.

Costs and Problems of Members in Using the Associations

Members may incur both direct and indirect costs in participating in supply bargaining associations. Likewise, they may encounter a number of problems in getting them to function effectively.

Costs That Participants May Incur

Direct costs of members to compensate the purchasing agent for his expenses have been discussed earlier. Other factors that need to be considered when a member compares the net cost of supplies purchased by other methods include: (1) The time spent in purchasing activities; (2) number of trips and telephone calls

made to obtain supplies; (3) differences in the amount of inventory that may be carried; and (4) additional use that can be made of existing buildings and equipment, or extra facilities that may be required.

TIME REQUIREMENTS

There was considerable variation in the number of trips individual members made to procure farm supplies. Members averaged eight trips to a local distribution point in 1963, and four trips to other points of distribution (wholesale warehouses or manufacturing plants). Several associations used rail sidings or trucks

stationed in towns for distribution points; and several used farms of purchasing agents.

Percentages of members making designated numbers of trips to a local distribution point to secure supplies in 1963 are shown in the following tabulation:

<u>Number of trips to local distribution point</u>	<u>Percent of patrons making designated number of trips</u>
1 - 4	35
5 - 8	26
9 - 12	16
More than 12	23

In addition to these trips to a local distribution point, 41 percent of the members made 1 or 2 trips outside their local area in 1963 to procure supplies; 23 percent made 3 to 5 trips; 18 percent made 6 to 9 trips; and another 18 percent made 10 or more of such trips.

The time required to make a trip to local distribution point was somewhat less than the time required to make a trip to the other points

of distribution, as shown in the following tabulation:

<u>Time required for trips</u>	<u>To local distribution point</u>	<u>To nonlocal distribution points</u>
	<u>Percent of members</u>	
1 hour or less	60	27
1.1 - 1.9 hours	20	61
2 hours or more	20	12

The median distance traveled by members in 1963 to procure farm supplies was 260 miles. This relatively low mileage reflected the local neighborhood nature of most of the buying groups.

The median round trip from members' farms to their local distribution points was 20 miles compared with 25 miles to other points of distribution.

The percentage of members with designated round-trip mileages to their local distribution points and to other points of distribution is shown in the tabulation below:

<u>Round-trip distance</u>	<u>Members with designated round-trip distances to local distribution points</u>	<u>Members with designated round-trip distances to other points of distribution</u>
<u>Miles</u>	<u>Percent of members</u>	
10 or less	26	27
11 - 20	29	23
21 - 30	16	18
31 - 40	13	9
41 or more	16	23

Approximately three-fourths of the members indicated that each regular meeting of their group required between 2 and 3 hours of their time. Three of the groups studied held a regular meeting each month; one group met every 2 months; and the remaining eight groups met once every 3 months.

Sixty percent of the members interviewed stated that they seldom used their telephones to order farm supplies, and the remaining 40 percent stated that they used their telephones at least once a month for this purpose.

About 61 percent of the members stated that they spent less time in procuring farm supplies since becoming members of a buying group, and 25 percent stated that they spent about the same amount of time. The remaining 14 percent indicated that they spent more time in procuring farm supplies since becoming members of a buying group.

The reduction in time required to procure supplies after becoming a member was due to using fewer sources than before, making purchases less frequently, and spending less time

checking prices and availability of products at several sources.

Those who used more time had previously had their supplies delivered to their farms, or were greater distances from the distribution point than from other sources of supplies.

COSTS OF CARRYING A LARGER INVENTORY

Over 90 percent of the members interviewed stated that they now purchased farm supplies less often but in larger quantities than they did before joining the buying group. Two-thirds of those interviewed reported buying two or three times as much per order, and one-third bought three to five times as much. The median inventory of feed was reported as 200 percent greater, or three times as high as before.

Costs associated with carrying a larger inventory include the cost of additional storage space, interest and insurance on the larger inventory, perhaps added personal property taxes, and possibly some shrinkage or deterioration of the product.

Usually the cost of the additional storage space needed was small. Many farmers were not previously utilizing all of their existing storage space, and others were able to provide the needed space in existing facilities with only small cash outlays.

Inasmuch as the associations required immediate payment upon receipt of products purchased, the members had to provide the capital to carry the larger inventories. When funds must be borrowed to carry the inventory, interest charges are easily recognized as one of the costs associated with carrying larger inventories. However, if the increase in purchases merely shifts the composition of current assets from cash to inventory and does not increase the total, no additional costs are incurred.

If the total assets must be increased, costs are involved--but these costs will vary among

individuals because of differences in what money is worth to them. The individual members' own capital and debt position, and alternative uses of funds which are acceptable to them, account in part for these differences.

Less than 10 percent of the members reported that the cash purchase of farm supplies was causing them to use additional credit. This study did not determine whether the capital to carry increased inventories was provided from unused cash reserves, or from a delay in payment of other obligations.

ADDITIONAL EQUIPMENT REQUIRED

The purchase of additional feed processing equipment was not necessary on most farms. Many members of the buying groups already had equipment for processing feed on the farm when they became members of the group. Some reported that the method of feed preparation adopted often resulted in greater use of feed milling equipment than before, thus lowering unit costs on the volume processed. They also reported greater use of their trucks than before.

For members who did not own feed processing equipment, it would be necessary to compare their costs of a prepared ration from sources available to them with the costs that would be incurred in purchasing and operating the equipment, and the additional labor costs. The difference in amount of their time required by each method, the value placed on their time, the volume of feed to be processed, the cost of the equipment, and custom charges for grinding and mixing are each major factors that must be considered in this comparison of costs.

Problems Encountered in Associations

Among the problems of operating a buying group are: Membership selection, time required of purchasing agents, obtaining agreement on supplies to purchase, maintaining quality control of supplies purchased, and lack of services to members.

MEMBERSHIP SELECTION

In a buying or bargaining group which has as an objective a limited membership, specific criteria for selection of members must be established. This may present problems at the outset or at a later date. Ability to meet the requirement of cash payment serves as one basis. Another is the willingness to attend meetings. Still another relates to the minimum amount of products that are to be purchased by an individual member. In addition, all members must have the desire and ability to cooperate with others in the group.

Eleven percent of the members reported that differences of opinion among members restricted activities of the group to some extent.

TIME REQUIRED OF PURCHASING AGENT

The time required of the purchasing agent in the conduct of business for the group may present a problem when these duties conflict with his farming or other activities. When expansion into purchasing a greater variety of products is desired by members, the demand on the purchasing agent's time in contacting and carrying on business with an increased number of suppliers increases. In most groups, however, the scale of operations to date has not been such as to create any serious problem with respect to time requirements. In other groups, a sharing of responsibilities among officers has been developed to handle the situation. All associations have followed an unwritten policy to restrict the purchasing agent's activities to only a part-time job.

A study to discover the bookkeeping practices followed among the groups and to develop labor-saving procedures could be of value to these groups if their activities and the number of their transactions continue to expand. An analysis of the time required to perform all the duties of the purchasing agent would provide members with a more accurate picture of the requirements of the purchasing agent's job--and provide a basis for equitable compensation for services rendered.

OBTAINING AGREEMENT ON SUPPLIES TO PURCHASE

In pooling orders, enough of a specific kind and brand of product must be purchased to make possible an economical shipment. This may mean that sometimes an order from only one member cannot be handled efficiently. Agreement by the members on the product that will best serve their needs is required--and opinions can differ on what product is best. Even though purchase of products is voluntary, some willingness to accept a second or third choice of product may be necessary if group buying is to become truly buying for a group.

Choice of a product will also be limited if the purchasing agent is unable to secure it and must buy a substitute. Infrequent purchase of some durable items may make it impossible to obtain a dealership. Delays in receiving a product may sometimes be involved, too.

MAINTAINING QUALITY CONTROL OF SUPPLIES PURCHASED

Maintaining quality control of the products handled is a constant problem. Many commercial feed manufacturers have analyses made in their own laboratories to check the quality of the ingredients purchased. Unless purchasing groups of the type in this study hire independent laboratories to test products (and this has been done on occasion), they must either buy standardized products for which quality differences have usually been very small, or take the risk that possible losses from quality differences will not exceed the net savings. The cost of hiring this service is a deterrent to frequent checking of quality of products received.

Members reported that the larger inventories they carried on their farms presented a slight storage problem. A few members experienced "bridging" (crusting or lumping) of bulk soybean meal during the summer, and a few reported that vitamins and dicalcium phosphate became lumpy after prolonged storage.

LACK OF SERVICES TO MEMBERS

The buying groups studied provided only limited services to their members. The basic organizational plan of the buying groups required that members themselves provide credit, delivery, and warehousing. Nevertheless, less than 5 percent of the members interviewed indicated that lack of the above-mentioned services was a disadvantage of the association. Eleven percent reported operating on a cash basis as a disadvantage, but less than 3 percent mentioned the necessity of carrying a larger inventory or the time in-

involved in securing feedstuffs as a disadvantage.

Lack of storage or running out of supplies did not seem to present problems. At the time of placing an order, every member cannot determine exactly what his requirements will be until the next ordering period. When members had not ordered enough, however, they obtained amounts needed from neighbors or the purchasing agent, bought from other suppliers, or placed a special order with the purchasing agent.

Impact on Local Retailers

Personal interviews were made with 13 local retail farm supply dealers in 8 counties where 9 of the 12 buying groups studied were operating. Seven of those interviewed were the owners of local retail farm supply stores, and six were managers of countywide cooperative service companies.

Business Continued With Members of Associations

Twelve of the 13 firms interviewed continued to do some business with the buying groups or their members. Two county service companies sold soybean meal to buying groups. Two firms extended the use of their rail sidings and unloading equipment to the buying groups for a small fee, even though the materials to be unloaded were not purchased through these firms. One local retailer sold feed to buying group members on a "fill-in" basis; that is, the group members bought feed from him when they ran out before their next group shipment arrived. Other local retailer business with these buying groups was confined to nonfeed items, such as gasoline, motor oil, agricultural chemicals, and fertilizer.

All dealers interviewed stated that they treated members of the buying groups no differently from any of their other patrons.

They all reduced prices through a system of quantity and cash discounts available to any other individual or group of individuals purchasing similar quantities on the same terms. Some dealers added that the buying groups thought that they were obtaining concessions not available to others by reason of their "bargaining power."⁶ Most dealers stated that there was no justifiable basis by which they could grant special privileges to the buying group.

Competitive Effects

The volume of business conducted by the various buying groups varied widely; consequently, their competitive effects varied from one area to another.

Seven of the dealers interviewed reported that they did not consider the buying groups as competitors. One even considered them as a special type of customer. The firms believed that the point differentiating buying groups from competitors was that the buying groups did not actively merchandise feed, but served only

⁶ In his book, *Farmers in Business* (Washington: Amer. Inst. Coop., 1963), Joseph G. Knapp states on page 289 that "...an organization of any kind has bargaining power when it is large enough...to obtain an advantage for its members."

their members. A few local dealers did not consider the buying groups as competitors merely because their business was not being hurt by the groups. The total volume of business conducted by the 12 groups was no greater than the volume conducted by some individual farm supply and implement dealers at one location.

The six dealers who considered the groups as competitors reported that their business was being hurt by these groups. They felt that the groups were a special type of competitor because the buying groups did not have a well-identified permanent place of business, did not actively compete for sales in the general community, and did not warehouse a large stock of products.

Ten dealers interviewed did not feel that the buying groups caused any special problems in the area, except those associated with normal competition. Three of them, however, felt that the buying groups caused unrest among farmers, or dissatisfaction with local prices by broadcasting their groups' prices.

Most of the local retailers admitted that the form of organization and operation of the buying groups possessed features that made savings possible. The features most often cited as advantageous for the groups were: Buying direct at dealer prices; reduction of most warehousing costs; small amount of capital tied up in facilities; and cash payment policy. The dealers further stated that the net savings were not nearly as significant as group members indicated. They said that members of a

buying group failed to figure all costs involved, had inefficient operations, and had "false economies."

The retailers stated that, in general, the members of the buying groups were younger, independent farmers, and usually the larger producers in an area. Some dealers, however, had widely differing opinions as to the type of persons these farmers were. A few dealers commented that they were the type of individuals who didn't like to see anyone make a profit. One dealer went so far as to call them a group of belligerent, self-centered farmers, who do not mind undermining the local community. On the other hand, another dealer called them the more progressive, better farmers in their area. Others commented that they were young farmers caught in an economic squeeze, and young men new to the cooperative movement.

Seven of the retailers contacted believed that the manufacturers of farm supplies were actively encouraging these buying groups. The general feeling of these dealers was that this was a way for manufacturers to establish a dealership in an area, or a way for them to increase sales volume by obtaining some large accounts. One dealer commented that this was a good example of the gradual breakdown of the system of exclusive franchises and dealerships in an area.

Four dealers, however, believed that this was a local movement and had nothing to do with the manufacturers of farm supplies. Two dealers made no comment on this issue.

Benefits Reported by Members

Determining the actual benefits farmers derive from cooperative buying of supplies is difficult. Some are tangible; others are intangible. The more important advantages that members believed they realized are discussed in this section.

Savings Realized

Ninety percent of those members interviewed said that the prospect of saving money was their major reason for joining a buying group. By pooling orders to permit purchases

and shipments in larger quantities, lower quoted prices to the purchasing agents and lower transportation charges were available than to a member as an individual. Further savings were made because of a reduction in handling costs through eliminating amounts some dealers lost on bad debts and in collecting accounts, and because the amount of warehousing at intermediate points was reduced.

From such a wide area as that studied, one would expect considerable variability in prices paid and savings realized; therefore, the median gross savings that members reported for selected items in the summer of 1964 are shown in table 9.

Table 9.--Median gross savings reported by members of buying groups in purchasing selected items, summer of 1964¹

Item	Amount
Soybean meal	\$10 a ton
Commercial supplement	\$ 6 a ton
Dicalcium phosphate	\$20 a ton
Feeding limestone	\$ 8 a ton
Fertilizer, sacked (7-28-14)	\$ 10 a ton
Anhydrous ammonia	\$ 25 a ton
Herbicides and insecticides	2 cents a pound
Vitamin mixture	17.5 cents a pound
Arsanilic acid	10 cents a pound
Injectable iron	\$ 4 per 100 cubic centimeters
Injectable antibiotic	\$ 1 per 100 cubic centimeters
Gasoline	2 cents a gallon
Motor oil	20 cents a gallon
Steel bins	30 percent of list price
Steel roofing	20 percent of list price

¹A wide range in savings was reported for some items. To avoid undue influence of high savings reported by a few members, the figure at the midpoint among those reporting has been listed (this also results in using a figure that is close to that reported by several members).

To more accurately arrive at the true net savings, members would need to deduct the following expenses: Charges assessed by the association; interest on the amount paid on a membership fee; costs of transporting supplies from distribution points to farms if

prices quoted by local suppliers were on a delivered basis; and any other costs incurred.

Actual prices paid through the buying groups and at other sources were not obtained. Hence the authors do not know if the lowest possible price from alternative outlets outside the buying group was used in stating the saving realized on each item. Other spot observations of prices paid for some of the items have indicated differences as great as the savings shown. However, since prices and competitive conditions change, the savings reported may not be indicative of what is possible at present.

Basically, savings on an item arise from the difference between the customary retail markup and the costs incurred by the members in their association. If an individual farmer not in a buying group places an order for several of the items as large as that placed by the buying group, there may be little, if any, savings arising from participation in the group.

Changes in Farming Operations

Forty percent of those interviewed stated that participation in the buying group had been responsible for some changes in their farm operations. Changes reported include:

1. Increasing the size of livestock enterprises.
2. Adding another livestock enterprise.
3. Improving the quality of livestock produced and becoming a more efficient feeder.
4. Going to a complete on-the-farm feed preparation system.
5. Using more plastic pipes for underground water lines.
6. Using more fertilizer.

Greater Use Made of Equipment Already on Farm

Three-fourths of those members interviewed reported that they have used some of their farm equipment more completely than they did before participating in the groups. Most commonly mentioned was greater use of their feed milling equipment. Nearly half reported greater use of their farm trucks, and a sixth reported greater use of their telephones. A few also reported more complete utilization of their storage facilities.

Exchange of Information on Farming Practices

An important benefit some members attached to the buying groups was the opportunity to exchange experiences and ideas with other farmers with similar types of operations, interests, and problems. Discussions covered a wide range of topics including new production practices, new products, and marketing experiences. Visits to other members' farms sometimes resulted.

Members received even a wider scope of information at their meetings if a professional farm manager, former vocational agriculture teacher or county agent, veterinarian, lawyer, or tax accountant was among the membership.

Other Stated Benefits or Advantages

One or more members interviewed listed the following other benefits:

1. Being able to secure products not readily available or not known about before.
2. Being able to buy all of the items wanted from one source.
3. Knowing the exact proportions of ingredients used in livestock rations, and being able to immediately change the proportions of ingredients to meet specific requirements.

4. Saving time in procuring products, and using less time with salesmen who now go to the purchasing agent.
5. Obtaining better service than had been available from the local dealer.
6. Having pride of ownership in a business in which the member has a direct voice in determining how it is operated.

Changes in Present Versus Initial Benefits

Three-fifths of those interviewed stated that advantages of membership were greater now than when they joined the association. The reason given most often was that a greater number of products was now being handled by their respective groups.

One-sixth of those interviewed, however, reported that the advantages of membership were less now than when they joined. The most common explanation was that savings were not as great now as they previously had been.

Two-thirds of the members interviewed stated that their previous suppliers had made some changes in their operations since the buying groups had been in operation. Most commonly mentioned changes were reductions in prices and the offering of quantity discounts. Several mentioned that facilities for hauling bulk feed (including soybean meal) had been added. Another mentioned more dealers were equipped to prepare complete rations, and still another mentioned "better treatment." Several mentioned that dealers were now offering a fortified soybean meal supplement.

Two of the 37 members interviewed reported that dealers in their community were less cordial than they had been earlier, but all of the other members stated that they had not been handicapped in dealing with other suppliers because of their participation in buying groups.

Suggestions by Members

In the course of the study members offered suggestions for improving the present associations, and also suggestions for any groups of farmers interested in forming new associations.

For Improving the Present Associations

Members were asked, "What changes would you like to see made in your buying group?" Nearly 40 percent of the members indicated that no changes were desired. Among the remaining replies, a variety of suggestions were made--some of which were contradictory. However, since only a few of the respondents were from the same group, these replies actually may not be in conflict. The most frequently mentioned points were:

1. Several respondents indicated more members were needed, but nearly as many stated a maximum limit should be placed on the membership, or the size of the area from which members are selected should be reduced.
2. A few members wanted the group to purchase fewer products and limit them to items purchased when the group was first organized. On the other hand, a few others wanted their groups to buy additional items, including heavy equipment.
3. Some members were in favor of ordering more often and in smaller amounts. Others suggested placing a minimum on the size of an individual order. Some members mentioned the need for each member to determine his requirements more accurately so that adequate quantities can be purchased.
4. Some members thought that more aggressive bargaining on the part of the purchasing agent would result in more favorable prices to members. Other members were of the opinion that their agents should be able to get a better price on commercial feed supplements.
5. Some members interviewed stressed the importance of having every item billed to the group when purchased by individual members in the name of the group.
6. Several stressed the importance of maintaining records in such a manner that the purchasing agent could quickly determine the volume of business done with each member.
7. Five percent of those interviewed stated that their group needed more operating capital.

For Farmers Interested In Forming New Associations

The principal suggestions members offered for farmers interested in forming supply bargaining associations were:

1. Appraise objectively the possible benefits and limitations of such a group in your own area.
2. Carefully select your membership.
 - a. Select members who are willing to cooperate and work together.
 - b. Choose members with large enough enterprises to give the group sufficient volume.
 - c. Obtain members with similar enterprises so the group's volume will not be divided among too many kinds of products.
 - d. Choose members with a good credit standing and record of prompt payment.
3. Organize properly.
 - a. Visit cooperatives already functioning to learn what you can from them.
 - b. Incorporate the association with the help of a lawyer.⁷

⁷ Present members believed almost unanimously that incorporation is necessary for the following reasons: (a) To be able to deal with suppliers, and (b) to limit the liability of members.

4. Carefully select the person who is to serve as the purchasing agent.
 - a. He should have good judgment; he will deal with many suppliers and must choose the best source for the products needed.
 - b. He must be honest in all of his dealings.
 - c. He must be able to get along with all of the members.
 - d. He must be able to devote a sufficient amount of time to efficiently perform all necessary duties.
5. Adopt sound business policies.
 - a. Provide sufficient capital.
 - b. Operate on a strict cash payment policy.
6. Follow sound business practices.
 - a. Use a system of recordkeeping that is adequate, accurate, and efficient.
 - b. Keep warehousing and other overhead costs to a minimum.
 - c. Do not try to buy too many products.
7. Keep the amount of products procured for nonmembers to a minimum.
8. Institute a fair and equitable method for paying the purchasing agent or manager.
 - a. Follow policies that will permit the group to earn acceptance in the community.
 - b. Determine whether any limits on number of members and on degree of participation are necessary.



Members of successful buying groups need to be willing to plan and order their needs in advance, to participate in group decisions, and to haul some of their supplies.

Appraisal of the Bargaining Associations

This section contains the authors' appraisal of the pooled purchasing efforts of farmers participating in the bargaining associations in the study.

Membership Benefits, Requirements, and Sharing of Costs

The growth in the number of nonstock purchasing associations, and in the number of members in several of these associations since they were formed, indicates that these groups are meeting needs which their members consider important. Many members have realized substantial savings from their participation in these groups. The development of this method of purchasing has given to participants some of the price advantages that professional farm managers obtain in buying supplies for the farms they manage; or that individual farmers obtain on becoming dealers for a manufacturer; or that operators of very large farms enjoy in buying supplies direct from manufacturers.

The very nature of the organizations is such that many farmers do not qualify for membership in most of the existing groups, nor would many of these farmers be likely to form a similar group for themselves. Some farmers depend on their present suppliers for credit and other services not offered by the buying groups. Others do not keep accurate enough records of their farm operations to closely forecast needs 3 months in advance. Some do not wish to use the type or form of products that others in an area may prefer. Others may be unwilling to participate in groups where purchasing decisions are jointly reached.

Whether all costs are being adequately paid for by the membership is not as clear. It appears probable that if the purchasing agents were compensated at the same hourly rate that members of the associations earn in their farming operations--or at the rate that other businesses would need to pay a competent manager--the commissions now paid some of the purchasing agents might need to be larger.

But the fact that the purchasing agent is also a member, and often one of the major users of supplies that the group obtains, is one inherent advantage in this form of organization. Further, many business enterprises throughout the development of this country have been built with a considerable amount of effort that was meagerly rewarded in the initial years of their existence. Man throughout history has shown his willingness to contribute his time to a variety of enterprises and activities which he considered important--with direct monetary reward being of secondary, or perhaps no, concern.

It is important to recognize, however, that if continued operation of a group requires some members to contribute much more than others in relation to benefits received, a potential for discontent exists.

Factors Affecting Future Growth

Further growth in the number of groups of this type will depend upon the attitude and needs of farmers in a particular area; how well their needs are met by existing or new suppliers; and whether they are willing to devote the time and effort necessary to get such a group organized and operating smoothly.

The existence, or threat of existence, of the buying groups has resulted in some changes in farm supply distribution methods and practices that make the probable benefits for newer groups less than those realized by the pioneer groups.

Many farmer cooperatives active today had as their predecessor organizations something quite similar to the present buying groups (see Appendix). Questions relating to both quality and price led some of the earlier feed buying groups to discontinue contracting with manufacturers for their products and to establish their own feed mills. Are these new buying groups destined to follow the same stages of development? The answer to this question will

depend largely upon how well the needs of members are met, or can be met, from alternative suppliers.

Conditions today differ in three important respects from those existing when earlier buying groups began warehousing and operating with full-time employees. These differences are: (1) Much greater quantities of supplies purchased per farm today (arising from larger farm operations and the substitution of purchased inputs for those formerly supplied by the farm and farm family); (2) improved transportation; and (3) more specialized manufacturing plants serving as sources of farm supplies.

These developments support a greater movement of products direct from manufacturing plants to farms. In addition, more widespread advertising through a greater variety of media by these manufacturers and greater knowledge among farmers about the products wanted have, in part, led to some bypassing of dealers who have not changed their methods of operation nor their volume-pricing practices.

Other developments in recent years serve as additional examples of a continuous evolution in farm supply retailing. These include the acquisition of retail establishments by manufacturers; the organization of wholesale distribution companies by independent dealers and small feed manufacturers; the development of retailers compensated on a commission basis, with billing and collecting being done by the supplier; the withdrawal of many retailers of feed and farm equipment from their industries; and mergers and further integration by regional farm supply purchasing cooperatives.

Expansion of self-service stores into lines other than foods; the development of discount stores; more extended use of coin-operated equipment for vending a variety of items; and the continued growth of voluntary chain groups also represent changes in the retailing system.

The use of brokers in product distribution continues to be important for many products sold in the United States. Independent manufacturers of farm supply items, which survive

in their competition with integrated operations, have a need for efficient, specialized forms of distribution. New firms with new products will also be searching for ready outlets able to pay cash.

The pattern of distribution encouraged or developed by present manufacturers and wholesale distributors will be an important factor in determining how long buying groups will continue. The existence of suppliers that are willing to deal with buying groups and that can provide a quality product competitively priced will be a key factor affecting the future life of these groups.

Internal Operating Questions in Need of Research

Differences of opinion or uncertainty among members as to the ideal number of members in a buying group indicate that study directed to this question might be helpful. For example, when is a group too large for its members to meet regularly and reach agreement on products to be ordered? How large an area should be served by a group? How many products should be handled? Successful groups in the study differed greatly in these respects.

Closely related are these questions: When do the purchasing agent's duties become too great for a member to handle? Should nonmembers be hired as purchasing agents?

The question of whether a group is too small is perhaps resolved more easily. Certainly the group's usefulness may be questioned if the quantity of product ordered becomes too low to qualify for any type of discount or savings in transportation costs.

A question raised by some observers is whether the present operating methods of the groups are adequate. As members increase or decrease the scale of their farming operations, will they want more services? The individual needs of present members are not likely to change in the same manner over time because of individual differences in age, income, net worth, and what they expect from

the group. The alternatives facing a given group then become those of either securing new members whose needs are met by the existing method of operation, or of modifying current operations to meet the changing needs of members.

The simplicity of the organizational structure of the present buying groups, their small capital investments, and their present method of covering expenses by percentage assessments on orders gives them great flexibility. The membership can easily decide to: (1) Discontinue operations of the group, (2) maintain it on a standby basis, or (3) increase its activities should such action seem advisable.

Uniform policies are not suggested for all groups, because of differences in the type of organization members want and need, and because of differences in purchasing choices members have in different areas. All groups will want policies which fit their own situation and which can be changed when conditions warrant it.

Finally, observations made during this study indicate that a detailed analysis of bookkeeping practices to determine possible improvements would be useful, both to present associations and to those that might form in the future.

Appendix: Earlier Efforts in Pooled Purchasing of Farm Supplies

This section contains a brief review of earlier efforts of farmers in pooled purchasing or group buying of farm supplies in Illinois and other States.

Illinois

In reporting on a convention of Illinois farmers that met at Centralia, Ill., on September 15, 1858, E. G. Nourse in "The Legal Status of Agricultural Co-operation" (New York: The Macmillan Co., 1927) states on page 32 that "farmers' clubs had existed in Illinois and other States prior to the time of this convention. . . and they undertook some commercial operations in the field, both of buying and selling. The movement, however, did not attain any very great momentum prior to the Civil War."

S. J. Buck, in his book, "The Granger Movement" (Cambridge: Harvard Univ. Press, 1913), discusses business cooperation from 1870 to 1880. On pages 244-245, he states:

In Illinois, also, the beginning of cooperation was practically contemporaneous with the organization of the first active Granges in Lee and Whiteside counties and successful operations were reported even

before the organization of the state Grange in 1872. In this state the situation was somewhat complicated by the existence of large numbers of open farmers' clubs, side by side with the Grange. The members of these organizations were as eager to attempt cooperation as were the Patrons and in many instances county or district farmers' associations, made up of both clubs and granges, were organized to manage the business feature. Some of these were very successful for a few years, as, for example, the Central Farmers' Association of Centralia. This organization was formed in January, 1873, and a purchasing agent was appointed in March. The agent experienced considerable difficulty in getting terms from implement manufacturers, because most of them had already made arrangements with dealers for the year. Opposition was also experienced from the local merchants; but the farmers persisted and in November, 1873, the secretary of the association was able to report the sale of about one hundred thousand dollars' worth of implements alone, through the agency, with a saving to the farmers living within a radius of fifteen miles of Centralia of twenty-five thousand dollars over prices which had formerly prevailed.

The early group buying activities of county soil and crop improvement associations, forerunners of county Farm Bureaus, in Illinois from about 1912 to 1917 is described by John J. Lacey in his book, "Farm Bureau in Illinois" (Bloomington, Ill. Agr. Assoc., 1965). Most of these activities were handled by farm agents (later farm advisers) employed in part with Federal funds from the U.S. Department of Agriculture.

Principal activities mentioned by Mr. Lacey were as follows:

The De Kalb County Soil Improvement Association, heavily backed by bankers, was hardly housed in an office before the board of directors authorized Eckhardt (its sales expert) to buy limestone on a cooperative basis for members. And on July 23, less than two months after starting operations, the board authorized the purchase of clover seed, up to \$20,000, and at not more than \$12 a bushel. Farmers wanted to buy their own seed and clean it themselves so that they could be sure of clean seed.

In November, Eckhardt was authorized to buy a moisture tester to use on corn, and on March 12 of the following year he was authorized to purchase rock phosphate in carload lots for members. (Page 15).

It should not be inferred that De Kalb county farmers went into the seed business to make money, or to hurt anyone else's business. They started to buy seed because it was almost impossible to get reliable seed from dealers. Illinois was the dumping ground for worthless seed, due to the lack of any state standards and effective regulation of the business. (Page 16.)

In 1913, the McHenry County Soil Improvement Association announced that it "would buy seeds for farmers on a cooperative basis. It was reported that some counties were saving as much as \$5,000 a year by cooperative buying." Delos James, the "county advisor" reported that in 1913 there were "3,500 acres

of alfalfa seeded, 66 carloads of limestone and 10 cars of phosphate purchased." (Page 26.) (It was not stated definitely, however, whether these were all purchased on a group or cooperative basis.)

The association (in Kankakee County) distributed \$9,000 worth of muriate of potash to its members this spring (1914). (Page 37.)

One incidental effect of the association is that the farmers have learned to work together. As a result, in several places in the county farmers have induced railroads to put in sidings where limestone can be unloaded and grain and livestock loaded. The saving of several miles in haul is worth a good deal to a busy farmer who is short of hired help.

"This siding saves me \$30 on every car of limestone I unload," remarked a Momence township farmer.

In Manteno township the farmers are shortening the limestone haul and lessening the cost in another way. They have bought a portable crusher to run with a threshing engine, and will soon be prepared to grind stone right in their own neighborhood. The crusher cost about \$500 and they figure they can grind the stone for about 40 cents a ton. (Page 38.)

On March 15, 1916, the county associations formed a statewide organization--the Illinois Agricultural Association (IAA). At its 1918 annual meeting, a report by the secretary, Ray Bishop, showed that the IAA was getting into cooperative purchasing:

The purchasing committee has held six meetings during the year and contracted for the purchase of 23,000 tons of phosphate, 2,533 bushels of red and mammoth clover seed, 193 bushels of sweet clover, 610 bushels of alsike, 350 bushels of alfalfa, 300 bushels of timothy seed, 350 bushels of soybeans and 45,000 pounds of rape--making a cash value totaling \$72,500. (Page 50.)

John R. Brent, director of the phosphate-limestone department of IAA, reported that he had had difficulties in disposing of the 50,000 tons of phosphate contracted for in 1920, and that a smaller amount would be negotiated for in 1921. (Page 75.)

On March 3, 1924, a project long under consideration was completed by organizing the Illinois Farm Bureau Serum Association. The farm advisers had been vaccinating hogs for members for a long time, and they taught farmers how to do the work themselves. This situation led to a real tussle with the veterinarians, who objected to farm advisers and farmers doing work that veterinarians considered their own and exclusive job. The farmers won the battle. Before the year was out, 46 county Farm Bureaus had purchased at uniform prices no less than 20 million cubic centimeters of serum. As was the case in so many other business services later to be provided by the IAA, this development came in response to demands by members. (Page 99.)

By the end of 1926, eight county Farm Bureaus had formed service companies to distribute petroleum products. The cooperative purchasing of limestone by county Farm Bureaus through the IAA had proved highly successful. This soon led to the formation of a statewide affiliated supply company--the Illinois Farm Supply Company--formed in 1927 to serve operating countywide service companies (supply cooperatives).

Other States

MIDWESTERN STATES

Early buying efforts of the Grange, founded in 1867, are briefly described in "Farm to Factory" (Columbia: Univ. Mo. Press, 1965) by Gilbert C. Fite on pages 6 and 7 as follows:

In order to purchase supplies at better prices, members of the Grange banded together, combined their orders, and ap-

pointed a local agent to buy in volume from jobbers and manufacturers. For example, farmers in a community might buy a carload of lumber or a dozen or more reapers and get them at reduced prices because of the quantity. When the shipment arrived, farmers would take delivery on whatever they had ordered, thus bypassing the usual middlemen and commission agents.

Following the organization of local groups, state agencies were formed to buy and ship farm produce and to purchase supplies for patrons on a bulk basis. As early as May, 1872, Kelley addressed a letter to manufacturers of farm machinery, asking them to submit price lists for equipment and explaining that the Grange wanted to save the commissions usually paid to agents "and the profits of the long line of dealers standing between the manufacturers and the farmers." The state Grange agent in Iowa bought thousands of dollars' worth of reapers directly from the manufacturers and sold them to patrons at a considerable saving on the usual retail price. It was estimated that in 1873 the Grangers saved 15 percent on family supplies and 20 percent on farm machinery by purchasing through their state agent and local associations.

The Iowa Grange was so successful as a buying agent that in 1875 it embarked upon a program to manufacture farm machinery. If savings could be made through cooperative purchasing, Grange officials reasoned, even more benefits could be derived from manufacturing the products. However, this project failed because of lack of capital, patent infringement suits, and other factors, and failure in this business enterprise hastened the decline of the Grange in Iowa.

In his book, "The Granger Movement," S. J. Buck discusses business cooperation during 1870-80 (pages 238-278). He indicated that the founders of the Grange intended the objectives to be almost entirely social, fraternal, and

intellectual, but the promise of pecuniary benefits soon became an important incentive for growth.

He states on pages 240-241:

Whenever a local grange was formed, almost the first step taken was to adopt some plan of cooperative buying and selling. Often, especially during the early years, all that was done was to make arrangements with certain local dealers for special rates in return for the cash trade of all the members. This plan never worked very long and generally made way for the establishment of a local agency. In some cases, the agent simply attended to forwarding the cash orders of the members to a manufacturer or jobber or to the state agency, if established, and distributed the shipments when they arrived. For these services the agent might receive a small commission or he might be paid a small salary by the grange. More often perhaps, he got no compensation but the opportunity to purchase his own supplies at a reduced price and the satisfaction of helping his neighbors. In other cases, the agency was supplied with a small amount of capital by the grange or by a stock company of members, and then it approached more nearly to the dignity of a cooperative store.

Often the granges of a county or other district found it advantageous to join together in a county council or Pomona grange and established a county or district agency to assist the members in their buying and selling. These larger agencies varied in methods much as did the smaller ones connected with a single grange. At first most of their energies were devoted to inducing manufacturers and wholesale dealers to make special terms. In this, of course, they were more successful than the local agencies because of their ability to control a larger trade. Later many of the county and district associations developed into cooperative stores of one form or another.

MISSOURI

The development of group buying in Missouri is discussed by Gilbert C. Fite on pages 22-26 of "Farm to Factory" as follows:

The first Farm Club was organized in 1914 and by the end of 1915 local clubs were beginning to set up county associations. The Farm Clubs had, through their secretaries, bought feed, seed, and other farm supplies in bulk and had sold them to members at lower than prevailing prices. When the county associations came into existence, the Farm Club secretaries pooled their orders, and the county secretary purchased supplies in carload lots for resale to members at even greater savings.

Farm Club representatives formed the Missouri Farmers Association in 1917.

A law passed by the Missouri legislature early in 1919 made possible the incorporation of genuine cooperative business organizations. Local Farm Clubs then combined, as they had in Polk County, to buy stock in exchanges that were established to meet the special purchasing and marketing needs of farmers. Under Cowden's management the Bolivar exchange was doing a thriving business among farmers in the community by the summer of 1919. In order to save money on purchases of supplies, the secretaries of local Farm Clubs would send their orders to Cowden, who would combine them and buy in Kansas City or elsewhere, usually in carload lots. Feed, seed, twine, flour, fertilizer, and other commodities were purchased in this fashion, with substantial savings to farmers.

Early efforts of the Farmers Alliance were discussed on pages 8 and 9 as follows:

The Farmers Alliance, which started in Texas in 1874 and in Illinois in 1880, included cooperative business enterprises as a vital part of its program. Like the

Grangers, Farmers Alliance members suffered from the gross exactions of middlemen and from the manipulation of agricultural markets. Alliance groups developed cooperative stores, insurance companies, and other businesses, all designed to save money for rural consumers. The agent system was also tried, and there were a few attempts to enter manufacturing. The Dakota Farmers' Alliance Company, set up in July, 1887, sought to save farmers money by purchasing supplies in wholesale lots. It bought coal, binder twine, and other commodities that were in turn sold to consumers through local cooperatives and Alliance agents. The Texas Farmers Alliance developed a program of group selling, and the Texas Exchange was set up to handle a large variety of goods required by farmers.

NEW YORK

In his book, "Seeds That Grew" (Hinsdale: Anderson House, 1960), Joseph G. Knapp traces some historical developments that led to the formation of the Cooperative Grange League Federation Exchange, Inc. (GLF), in Ithaca, N.Y., in 1920. As early as 1860 a group of farmers in New York jointly purchased shiploads of guano fertilizer. In 1913, a farm bureau seed committee in Cattaraugus County, N.Y., pooled the seed orders of its members and obtained seed for them from a reliable source. Members of the Dairymen's League took feed from railcars and paid cash in 1917. The New York Grange Exchange (1918) acted only as a broker. It contracted with a supplier for fertilizer, and with another for feed on an open formula, but the feed arrangement continued for only a few months. Supplies of farm machinery could not be obtained from any well-known company.

NEW ENGLAND

In 1918, the Eastern States Farmers' Exchange, Inc., West Springfield, Mass., was formed as a regional purchasing association to provide supplies for farmers in New Eng-

land. It established farmer-representatives which assembled orders from nearby neighbors for carloads of feed, fertilizer, and other supplies. Later, regional branch warehouses were established. But about 285 representatives were still pooling orders on July 1, 1964, when the exchange merged with Cooperative GLF Exchange to become Agway Inc., Syracuse, N.Y.

PENNSYLVANIA

C. E. Bassett reported in the "1915 Yearbook of the United States Department of Agriculture" (Washington: Gov't. Print. Off., 1915) (pages 73-82) that Pennsylvania farmers were buying in carload quantities direct from non-local suppliers in order to reduce incoming freight charges, and the cartage, warehousing, and advertising costs incurred by local dealers. These farmers made arrangements for a local bank to certify that money was there awaiting the shipper's bank draft.

INDIANA

Group buying in Indiana is briefly discussed by Paul Turner in his book, "They Did It In Indiana" (New York: The Dryden Press, 1947) (pages 13-15), as follows:

In 1920, agricultural prices declined drastically. Complaints began to come to the Indiana Federation of Farmer Association headquarters from farm groups throughout the State. The complaints were to the effect that the State organization was not taking sufficiently positive steps to promote organized buying and selling activities. Many of the local groups had already taken it upon themselves to make up pooled orders for whatever farm supplies their members demanded. Nearly every issue of the Hoosier Farmer of this period contained reports and news items concerning these group buying activities. By pooling their orders, these groups were receiving wholesale prices on their purchases of farm supplies.

In the book, "Built of Men" (New York: Harper & Bros., 1952), by I. Harvey Hull, references are made to early buying of supplies by the Indiana Farm Bureau, Inc., for its members (pages 21-22, 42-45, and 53-54). It began purchasing fertilizer in 1920-21 and feed in 1922.

VIRGINIA

W. G. Wysor relates in his book, "The Southern States Story" (Richmond: Southern States Coop., 1959) (pages 1-24), the conditions which brought about the formation of the Virginia Seed Service in 1923 and the subsequent developments which led to its successor, the present Southern States Cooperative. He reported as follows:

For many years Virginia farmers had experienced difficulty in procuring high quality seed that was adapted to their particular area. In 1923, a group of farmers decided to set up their own organization to handle locally grown certified seed on a cooperative nonprofit basis. The name of the new association was Virginia Seed Service.

During the first few months, the seed business done by the new association was almost entirely mail order; shipments were direct from Richmond to patron. As rapidly as possible, however, a pool system of distribution was set up. The men who conducted these pools were farmers with enough zeal for farmer cooperation and enough altruistic spirit to undertake the personally unprofitable task of taking his neighbor's order for seed.

A fundamental principle which the new association pioneered was the policy of public specifications. This meant furnishing the patron all the essential facts about the seed--the variety, origin, germination, etc.

Some years later the new association began selling manufactured feed, and most of the feed supplied patrons was handled through pools.

Orders were collected for a carload of 20 tons or more; the car was spotted at a designated siding, and the feed was picked up by the patron at the car door.

The pool system was a temporary expedient. Although it was inexpensive for the farmer, it had many disadvantages. It worked for a time because the new association offered their patrons a new and needed service that was not available elsewhere. It created a demand for additional lines of farm supplies, and led step by step to the creation of the present day Southern States distribution system.

England

Joseph G. Knapp states in his report, "An Analysis of Agricultural Cooperation in England" (London: Agr. Central Coop. Assoc., Ltd., 1965), (page 140):

Of particular interest since 1960 has been the phenomenal expansion of buying and selling groups. Some observers have looked upon them as the harbingers of a new movement in agriculture which would supplant the old-fashioned and orthodox agricultural cooperative societies with modern up-to-date producers' organizations alert to the needs of modern agriculture.

Without doubt the group movement has performed an important function in interesting and educating farmers in new methods of cooperative action. It has also forced existing agricultural cooperatives to re-examine their procedures to meet the competition offered by the groups. Many cooperatives have found that the use of grouping procedures can enable them to operate more efficiently--both in distributing farm supplies and in marketing.

Basically, groups are informal cooperative organizations of farmers who join together on a neighborhood basis to buy supplies or market farm products. They are not new in English agricultural cooperation, for many of the early cooperatives were first set up in this way.

Other FCS Publications Available

Farmer Cooperatives in the United States. Bulletin 1, Revised.

Statistics of Farmer Cooperatives, 1962-1963. General Report 128, Bruce L. Swanson.

Handbook on Major Regional Cooperatives Handling Supplies, 1962 and 1963. General Report 125, J. Warren Mather.

Credit Control in Selected Retail Farm Supply Cooperatives, Area VI, New York, New Jersey, Virginia, West Virginia, North Carolina, and Georgia. General Report 71, John M. Bailey.

Inventory Management by Selected Retail Farm Supply Co-ops, Area VI, New York, New Jersey, Virginia, West Virginia, North Carolina, and Georgia. General Report 70, John M. Bailey.

Mobile Feed Milling by Cooperatives in the Northeast. General Report 99, Theodore R. Eichers and Arno J. Hangas.

Lawn and Garden Services in Eastern Farmer Co-ops. General Report 107, John M. Bailey.

Cooperative Bulk Fertilizer Blending in the Upper Midwest. General Report 122, Theodore R. Eichers.

Improving Management of Farmer Cooperatives. General Report 120, Milton L. Manuel.

Using Your Farm Supply Co-op. Educational Circular 6.

Forming Farmer Cooperatives. Educational Circular 10.

Financing Farmer Cooperatives. Educational Circular 5.

Assuring Democratic Election of Cooperative Directors. Educational Circular 21.

A copy of each of these publications may be obtained while a supply is available from--

Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250